

DIRECT TESTIMONY AND EXHIBITS OF

DANIEL F. SULLIVAN

ON BEHALF OF

THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF

DOCKET NO. 2021-4-G

**IN RE: ANNUAL REVIEW OF PURCHASED GAS ADJUSTMENT AND GAS
PURCHASING POLICIES OF PIEDMONT NATURAL GAS COMPANY, INC.**

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Daniel F. Sullivan. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina, 29201. I am employed by the South Carolina Office of Regulatory Staff (“ORS”) as the Deputy Director of the Audit Department.

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I received a Bachelor of Science Degree in Business Administration with a major in Accounting from the University of South Carolina in December 1998. In February 2005, I began my employment with ORS and since have participated in cases dealing with the regulation of telecommunications, natural gas, electric, radioactive waste disposal, water and wastewater utilities.

Q. HAVE YOU TESTIFIED PREVIOUSLY BEFORE THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA (“COMMISSION”)?

A. Yes. I have previously testified before the Commission.

Q. WHAT IS THE MISSION OF THE OFFICE OF REGULATORY STAFF?

A. ORS represents the public interest as defined by the South Carolina General Assembly as:

[T]he concerns of the using and consuming public with respect to public utility services, regardless of the class of customer, and preservation of continued investment in and maintenance of utility facilities so as to provide reliable and high-quality utility services.
S.C. Code Ann. § 58-4-10

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS PROCEEDING AND HOW DOES YOUR DIRECT TESTIMONY REPRESENT THE PUBLIC INTEREST?

A. The purpose of my direct testimony is to set forth findings resulting from ORS's examination of Piedmont Natural Gas Company, Inc.'s ("Company" or "Piedmont") purchased gas deferred account, storage inventory activity, and hedging account activity, for the period April 2020 through March 2021 ("review period"). By examining the books and records to ensure they comply with applicable Commission Orders and verifying the (over)/under-recovery balance in the purchased gas deferred account is stated accurately, my direct testimony promotes the public interest.

Q. WAS THE REVIEW PERFORMED BY YOU OR UNDER YOUR SUPERVISION?

A. Yes. The review to which I testify was performed by me or under my supervision.

Q. IN CONNECTION WITH YOUR DIRECT TESTIMONY, DID YOU PREPARE OR CAUSE TO BE PREPARED ANY EXHIBITS?

A. Yes, the Audit Department prepared Audit Exhibit DFS-1, titled "Purchased Gas Deferred Account Analysis Summary," Audit Exhibit DFS-2, titled "Storage Inventory

Activity,” and Audit Exhibit DFS-3, titled “Hedging Account Activity,” in connection with this testimony.

**Q. UNDER WHAT AUTHORITY DOES ORS MONITOR THE ACTIVITY IN
PIEDMONT’S PURCHASED GAS DEFERRED ACCOUNT?**

A. In Order No. 88-294 dated April 16, 1988, the Commission found that:

(1) A true-up for differences between billed and filed rates is appropriate and necessary to ensure that Piedmont’s customers pay no more than Piedmont’s actual cost of gas.

(2) A true-up of demand charges for changes in sales volumes is appropriate and necessary to ensure that Piedmont’s customers pay no more than Piedmont’s actual cost of gas.

(3) The Company is to maintain an account reflecting its gas costs each month, the amount of gas costs recovered each month, and amounts deferred from month to month. The Company is also required to file, with the Commission, a report on a monthly basis showing the status of this purchased gas deferred account.

Additionally, with the issuance of Commission Order No. 2002-223 dated March 26, 2002, the Company is required to file regular reports on the status of the hedging program and the results of its hedging activities.

**Q. HAS ORS EXAMINED THE COMPANY’S PURCHASED GAS DEFERRED
ACCOUNT?**

A. Yes. ORS has examined the activities included in the purchased gas deferred account. In addition, ORS has examined the Company’s gas storage inventory activity and hedging account activity for the review period.

Q. WHAT IS INCLUDED IN AUDIT EXHIBIT DFS-1, PURCHASED GAS DEFERRED ACCOUNT ANALYSIS SUMMARY?

A. Audit Exhibit DFS-1 presents, for each month of the review period under examination, the components which comprise the Company's (over)/under collection in the purchased gas deferred account. These components are:

Commodity True-Up – These amounts represent the difference in the Company's actual gas costs on a monthly basis as compared to the benchmark cost of gas included in the Company's Gas Cost Recovery Mechanism ("GCRM") filings during the review period. The Company's benchmark cost of gas during the review period was \$2.00 per dekatherm, established as a result of the Company filing GCRM #151, effective the first billing cycle in January 2020, and remained unchanged during the review period. In accordance with Commission Order No. 2010-250 dated March 30, 2010, the Company includes unbilled volumes in its commodity true-up calculations to achieve a better matching of gas cost collections versus actual gas costs in the months they occur. South Carolina's portion of commodity true-up for the review period decreased the over-collection by \$5,649,536.

Demand True-Up – These amounts represent the (over)/under collection of demand charges incurred by the Company as compared to demand charges billed and collected from customers. In accordance with Commission Order No. 2010-250, the Company includes unbilled volumes in its demand true-up calculations in order to achieve a better matching of gas cost collections versus actual gas costs in the months they occur. The design day factor for allocation of demand charges to South Carolina remained at 14.76%, effective as of November 1, 2019, due to North Carolina Utilities Commission ("NCUC") Docket No. G-9 Sub 743, Order dated October 31, 2019. The methodology used to

1 calculate the design day factor for demand allocation of 14.76% is in compliance with
2 Commission Order No. 2004-501, dated October 15, 2004. Demand true-up for the review
3 period decreased the over-collection by \$1,494,866.

4 **Negotiated Losses** – In competition with alternate fuels, the Company's GCRM allows it
5 to maintain its industrial load by selling gas at less than the approved tariff, resulting in
6 margin losses. During the review period there were no negotiated losses, so there was no
7 effect on the Company's (over)/under-collection.

8 **Secondary Market Sharing** – Effective with rates approved in Commission Order No.
9 2002-761 dated November 1, 2002, the Company credited 75% of the margins from off-
10 system sales and capacity release transactions to the purchased gas deferred account. The
11 remaining 25% was retained by the Company. Additionally, the Order provided capacity
12 release credits and off-system sales would be allocated to South Carolina using the same
13 design day methodology approved for fixed demand costs.

14 In accordance with NCUC's Order in Docket No. G-9 Sub 682, dated September 29, 2016,
15 Approving Merger Subject to Regulatory Conditions and Code of Conduct regarding the
16 merger of Piedmont and Duke Energy, 100% of margins received by Piedmont from
17 secondary market sales to Duke Energy Carolinas, LLC and Duke Energy Progress, LLC
18 are now credited to the purchased gas deferred gas accounts for the benefit of the
19 ratepayers.

20 Shared margins and capacity release credits for the review period increased the over-
21 collection by \$4,913,339. It should be noted that in compliance with Commission Order
22 No. 95-1461 dated August 22, 1995, the Company is properly reporting capacity release

1 activity. These capacity release credits totaling \$3,767,456 are included in the total of
2 \$4,913,339 listed above for secondary market sharing.

3 **Weather Normalization** – In compliance with Commission Order No. 95-1649 dated
4 November 7, 1995, the Company began recording in the purchased gas deferred account
5 weather normalization effective for the winter heating season of November through March.
6 The weather normalization adjustment is designed to increase or decrease the margin
7 component of the rate based on a comparison of actual weather conditions during the
8 period, to normal weather conditions. Weather normalization adjustments for the review
9 period decreased the over-collection by \$242,778, as a result of warmer than normal
10 weather for the 2020-2021 heating season.

11 **Uncollectibles** – In Order No. 2006-527 dated October 11, 2006, the Commission
12 approved the Company's request to remove uncollectible gas cost expense from its cost of
13 service and authorized the recovery of these costs through the Company's purchased gas
14 deferred account. Under this revised methodology, the commodity cost of gas portion of
15 uncollectible accounts is now a component of the purchased gas deferred account. The
16 balance of the uncollectible accounts expensed, including the Company's margin, will be
17 recovered through its annual Rate Stabilization Act filing. The uncollectible gas cost
18 adjustment decreased the over-collection during the review period by \$228,431.

19 **Supplier Refunds** – The Company received supplier refunds totaling \$25,554,825 during
20 the review period. South Carolina's allocation of these refunds increased the over-
21 collection by \$3,771,865.

22 **Hedging Activity Transfer** – In Order No. 2006-527, the Commission authorized the
23 Company to transfer the balance of its cumulative hedging gains or losses to the purchased

gas deferred account on a monthly basis, effective November 1, 2006. Transfer of the monthly hedging gains and losses to the purchased gas deferred account for the review period decreased the over-collection by \$239,779.

Other Adjustments – The Company posted an adjustment in the month of November 2020 to the purchased gas deferred account to include the remaining balance of the special decrement owed to customers as requested by the Company in Docket No. 2020-7-G. This adjustment increased the Company’s over-collection by \$63,927. ORS verified the adjustment to the Company’s general ledger journal detail and other supporting workpapers.

Interest – In Order No. 2009-579, the Commission ordered that, effective September 1, 2009, the interest rate to calculate (over)/under collection balances to be the rate of interest as of the first day of each month for 10-year United States Government Treasury Bills, plus an all-in spread of 65 basis points (.65 percentage points). It also ordered that interest not be accrued on (over)/under collection balances which exceed \$20 million in the purchased gas deferred account. Total accrued interest for the review period increased the over-collection by \$44,967.

Q. WHAT IS INCLUDED IN AUDIT EXHIBIT DFS-2, STORAGE INVENTORY ACTIVITY?

A. During our examination, the Company provided ORS with detailed inventory calculations of its underground and liquefied natural gas (“LNG”) storage facilities. ORS accumulated the various inventory levels by storage location in total and included a summary of them in Audit Exhibit DFS-2 for Commission consideration.

1 The Company has contracted with six (6) underground storage facilities. Four (4)
2 of these facilities are on the Transco System. They include General Storage Service and
3 General Storage Service–Dominion located in Pennsylvania, Washington Storage Service
4 located in Louisiana, and Eminence Storage Service located in Mississippi. The fifth and
5 sixth underground storage facilities are on the Columbia Gas Transmission System. The
6 fifth is Firm Storage Services, which is owned by Columbia Gas Transmission Corporation
7 and operated by Columbia Gas Storage, with facilities in Pennsylvania, Virginia, and West
8 Virginia. The sixth is Hardy Storage Company, located in West Virginia, which is jointly
9 owned by Columbia Gas Transmission Corporation and Piedmont. Audit Exhibit DFS-2,
10 “Total Underground” section, details the inventory activities of these underground
11 facilities in total. The inventory located in the six (6) underground facilities at the beginning
12 of the review period totaled 9,161,904 dekatherms at a total cost of \$23,294,268 for a
13 weighted average cost of \$2.5425 per dekatherm. The net inventory decreased during the
14 review period resulting in an ending inventory balance in the underground facilities of
15 8,336,710 dekatherms at a total cost of \$19,694,455 for a weighted average cost per
16 dekatherm of \$2.3624. During its examination, ORS obtained verification from the storage
17 facility operators of the volumes stored in each of these facilities at the close of the review
18 period.

19 Audit Exhibit DFS-2 also contains a section titled “Total LNG” which is a summary
20 of the various LNG inventories maintained by the Company, including Pine Needle. Pine
21 Needle is an LNG facility located in Guilford County, North Carolina and is jointly owned
22 by Piedmont, Transco and several other utilities and/or investors. Inventory is also stored
23 at the Company’s LNG facilities located at LNG-Huntersville near Charlotte, North

Carolina and at LNG-Bentonville in Four Oaks, North Carolina. Piedmont also has inventory at the Transco LNG facility located in Carlstadt, New Jersey. Piedmont's records indicated LNG inventory located at these facilities at the beginning of the review period totaled 2,726,744 dekatherms at a total cost of \$8,176,170 for a weighted average cost of \$2.9985 per dekatherm. The net inventory decreased during the review period resulting in an ending LNG inventory balance for these four facilities of 1,777,160 dekatherms at a total cost of \$5,602,792 for a weighted average cost per dekatherm of \$3.1527. During its examination, ORS verified the calculation of ending inventory balances and the injections and withdrawals to the daily storage activity worksheets for each facility.

Q. WHAT IS INCLUDED ON AUDIT EXHIBIT DFS-3, HEDGING ACCOUNT ACTIVITY?

A. Audit Exhibit DFS-3 details the results of the Company's hedging program for the review period. Commission Order No. 2002-223 dated March 26, 2002 approved the Company's experimental natural gas hedging program.

In Order No. 2006-527, effective November 1, 2006, the Commission authorized the Company to transfer the balance of its cumulative hedging gains or losses to the purchased gas deferred account on a monthly basis. Monthly net hedging gains or losses before interest were transferred to the purchased gas deferred account and included as part of the interest calculation. Total hedging activity for the review period resulted in a decrease in the over-collection in the purchased gas deferred account of \$239,779.

As indicated on Audit Exhibit DFS-3, the cumulative loss at the end of the review period for the hedging program is \$42,549,716.

Q. WHAT ARE ORS'S FINDINGS REGARDING PIEDMONT'S PURCHASED GAS DEFERRED ACCOUNT?

A. Based on our examination, it is the opinion of ORS that the over collection balance in the purchased gas deferred account at March 31, 2021 of (\$2,389,099.67), shown on Company witness Tomlinson's Exhibit_(MBT-1), is accurately stated.

Q. WILL YOU UPDATE YOUR DIRECT TESTIMONY BASED ON INFORMATION THAT BECOMES AVAILABLE?

A. Yes. ORS fully reserves the right to revise its recommendations via supplemental testimony should new information not previously provided by the Company, or other sources, becomes available.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

AUDIT EXHIBIT DFS-1

PIEDMONT NATURAL GAS COMPANY, INC.
DOCKET NO. 2021-4-G
PURCHASED GAS DEFERRED ACCOUNT ANALYSIS SUMMARY
FOR TWELVE MONTHS ENDED MARCH 31, 2021

Month	2020						2021						Total
	April	May	June	July	August	September	October	November	December	January	February	March	
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Beginning Balance	(1,450,387)	(1,165,373)	(616,940)	(5,051,886)	(4,388,524)	(3,966,727)	(3,350,632)	(2,979,182)	(1,584,908)	(2,356,530)	(4,505,711)	(2,795,972)	
Commodity True-Up	(357,091)	(247,313)	(932,455)	(251,773)	(289,680)	(82,584)	(105,277)	721,258	1,395,396	1,067,370	4,106,466	625,219	5,649,536
Demand True-Up	804,770	1,062,805	559,513	1,212,894	1,023,901	1,004,133	805,205	292,220	(1,737,054)	(2,233,615)	(1,341,335)	41,429	1,494,866
Negotiated Losses	0	0	0	0	0	0	0	0	0	0	0	0	0
Secondary Market Sharing	(235,089)	(312,220)	(305,440)	(298,483)	(311,872)	(309,892)	(250,058)	(403,695)	(884,813)	(589,621)	(595,140)	(417,016)	(4,913,339)
Weather Normalization	247	1	(25)	(10)	21	(5)	302	770,875	432,815	(438,561)	(483,708)	(39,174)	242,778
Uncollectibles	23,936	24,506	8,812	4,658	7,302	9,276	(982)	194	2,329	9,009	29,445	109,946	228,431
Supplier Refunds	(6)	(55)	(3,770,630)	0	0	(1,174)	0	0	0	0	0	0	(3,771,865)
Hedging Activity Transfer	49,652	21,681	8,442	833	(3,247)	394	(73,734)	80,333	22,298	41,209	394	91,524	239,779
Other Adjustments	0	0	0	0	0	0	0	(63,927)	0	0	0	0	(63,927)
Ending Balance Before Interest	(1,163,968)	(615,968)	(5,048,723)	(4,383,767)	(3,962,099)	(3,346,579)	(2,975,176)	(1,581,924)	(2,353,937)	(4,500,739)	(2,789,589)	(2,384,044)	
Interest	(1,405)	(972)	(3,163)	(4,757)	(4,628)	(4,053)	(4,006)	(2,984)	(2,593)	(4,972)	(6,383)	(5,051)	(44,967)
Ending Balance	(1,165,373)	(616,940)	(5,051,886)	(4,388,524)	(3,966,727)	(3,350,632)	(2,979,182)	(1,584,908)	(2,356,530)	(4,505,711)	(2,795,972)	(2,389,095)	
Interest Rate	1.290%	1.310%	1.340%	1.210%	1.330%	1.330%	1.520%	1.570%	1.580%	1.740%	2.100%	2.340%	

Purchased Gas Deferred Account (Over)/Under-Collection as of 3/31/21

(\$2,389,095) (1)

(1) - Variance from Exhibit (MBT-1) of \$4.67 is due to rounding

PIEDMONT NATURAL GAS COMPANY, INC.
DOCKET NO. 2021-4-G
STORAGE INVENTORY ACTIVITY
FOR TWELVE MONTHS ENDED MARCH 31, 2021

	Total Underground Injections					Total Underground Withdrawals				Total Underground Balance		
	Gross DTs	Used/Injected	Price	Commodity	Injection/Charge	W/D Charge	DTs	Price	Amount	DTs	Amount	Wtd. Cost
	#	#	\$	\$	\$	\$	#	\$	\$	#	\$	\$
Beg. Bal.										9,161,904	23,294,268	2.5425
Apr-20	359,341	(8,726)	1.4528	522,033	19,820	0	(717,424)	2.4354	(1,747,235)	8,795,095	22,088,886	2.5115
May-20	2,550,953	(86,364)	1.5991	4,079,130	87,252	0	(476,297)	2.3556	(1,121,987)	10,783,387	25,133,281	2.3307
Jun-20	2,075,976	(45,136)	1.4962	3,106,092	79,297	0	(80,293)	2.0456	(164,244)	12,733,934	28,154,426	2.2110
Jul-20	1,625,349	(35,793)	1.4762	2,399,368	64,355	0	(40,452)	1.9146	(77,450)	14,283,038	30,540,699	2.1382
Aug-20	2,252,469	(49,272)	1.7672	3,980,488	83,331	0	(163,947)	1.9251	(315,621)	16,322,288	34,288,897	2.1007
Sep-20	1,958,624	(45,412)	1.8756	3,673,620	75,253	0	(128,261)	1.9760	(253,441)	18,107,239	37,784,329	2.0867
Oct-20	1,512,507	(33,602)	1.7538	2,652,589	61,489	0	(65,844)	1.9979	(131,551)	19,520,300	40,366,856	2.0679
Nov-20	1,153,042	(22,867)	2.4956	2,877,569	60,348	0	(365,892)	2.1167	(774,492)	20,284,583	42,530,281	2.0967
Dec-20	1,127,783	(16,323)	2.6017	2,934,110	55,946	0	(2,251,501)	1.9234	(4,330,539)	19,144,542	41,189,798	2.1515
Jan-21	7,935	(229)	2.4954	19,801	383	0	(5,236,025)	2.0238	(10,596,471)	13,916,223	30,613,511	2.1998
Feb-21	570,089	(7,425)	4.0389	2,302,521	39,064	0	(3,475,853)	2.2155	(7,700,721)	11,003,034	25,254,375	2.2952
Mar-21	152,282	(3,144)	2.6180	398,680	9,358	0	(2,815,462)	2.1197	(5,967,958)	8,336,710	19,694,455	2.3624
	15,346,350	(354,293)	1.8862	28,946,001	635,896	0	(15,817,251)	2.0978	(33,181,710)			

	Total LNG Injections					Total LNG Withdrawals				Adjustments To Tank Level		Total LNG Balance		
	Gross DTs	Used/Injected	Price	Commodity	Injection/Charge	W/D Chg/Exp Def	DTs	Price	Amount	DTs	Amount	DTs	Amount	Wtd. Cost
	#	#	\$	\$	\$	\$	#	\$	\$	#	\$	#	\$	\$
Beg. Bal.												2,726,744	8,176,170	2.9985
Apr-20	152,340	(392)	1.4680	223,642	167	71,989	(53,579)	3.0983	(166,004)	0	0	2,825,113	8,305,964	2.9400
May-20	38,078	0	1.6546	63,002	0	108,978	(40,317)	3.1564	(127,256)	0	0	2,822,874	8,350,688	2.9582
Jun-20	319,878	(4,238)	1.5194	486,019	3,753	33,604	(30,350)	3.2108	(97,447)	0	0	3,108,164	8,776,617	2.8237
Jul-20	470,187	(5,487)	1.5293	719,057	4,854	59,265	(31,951)	3.1956	(102,104)	0	0	3,540,913	9,457,689	2.6710
Aug-20	632,654	(5,487)	1.8649	1,179,836	4,854	121,878	(34,440)	3.1141	(107,251)	0	0	4,133,640	10,657,006	2.5781
Sep-20	320,328	(4,248)	2.0044	642,072	3,758	75,644	(28,690)	3.1490	(90,346)	0	0	4,421,030	11,288,134	2.5533
Oct-20	0	0	0.0000	0	0	31,394	(27,722)	3.1657	(87,759)	0	0	4,393,308	11,231,769	2.5566
Nov-20	0	0	0.0000	0	0	31,189	(32,634)	3.2049	(104,590)	0	0	4,360,674	11,158,368	2.5589
Dec-20	120,123	(1,593)	2.6096	313,467	2,098	35,748	(963,451)	2.1606	(2,081,662)	0	0	3,515,753	9,428,019	2.6816
Jan-21	0	0	0.0000	0	0	41,907	(734,374)	2.5002	(1,836,094)	0	0	2,781,379	7,633,832	2.7446
Feb-21	186,858	(2,478)	4.0389	754,697	3,263	45,551	(960,353)	2.4063	(2,310,883)	0	0	2,005,406	6,126,460	3.0550
Mar-21	53,388	(708)	2.6225	140,009	932	40,702	(280,926)	2.5107	(705,311)	0	0	1,777,160	5,602,792	3.1527
	2,293,834	(24,631)	1.9713	4,521,801	23,679	697,849	(3,218,787)	2.4285	(7,816,707)	0	0			

PIEDMONT NATURAL GAS COMPANY, INC.
DOCKET NO. 2021-4-G
HEDGING ACCOUNT ACTIVITY
(GAIN)/LOSS RECOGNIZED AND OTHER EXPENSES
FOR TWELVE MONTHS ENDED MARCH 31, 2021

Month	Net Options Premium	Purchased Options Fees	RMI Fee	Proceeds from Positions	Exercised Options Fees	Net (Gain) or Loss	Cumulative (Gain) or Loss
	\$	\$	\$	\$	\$	\$	\$
Beginning Balance							42,309,937
Apr-20	48,510	759	383	0	0	49,652	42,359,589
May-20	21,340	341	0	0	0	21,681	42,381,270
Jun-20	7,920	139	383	0	0	8,442	42,389,712
Jul-20	0	0	833	0	0	833	42,390,545
Aug-20	0	0	405	(3,660)	8	(3,247)	42,387,298
Sep-20	0	0	394	0	0	394	42,387,692
Oct-20	0	0	394	(75,090)	962	(73,734)	42,313,958
Nov-20	96,615	1,597	394	(18,750)	477	80,333	42,394,291
Dec-20	21,810	326	394	0	(232)	22,298	42,416,589
Jan-21	40,620	589	0	0	0	41,209	42,457,798
Feb-21	0	0	394	0	0	394	42,458,192
Mar-21	107,160	1,705	394	(18,240)	505	91,524	42,549,716
	343,975	5,456	4,368	(115,740)	1,720	239,779	